

EMPLOYMENT SEGMENTATION AND THE SUPPLY CHAIN IN THE CHINESE AUTOMOTIVE INDUSTRY: THE CHANGING RELATIONSHIPS BETWEEN FOREIGN MNC MANUFACTURERS AND THEIR LOCAL SMES WHOLESALE DISTRIBUTORS IN CHINA

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ABSTRACT

China is undergoing a rapid process of change and transformation. A key weakness in the Chinese economic model has been its underdeveloped system of employment relations and training, particularly in its dominant SME firm population- accounting for 99.7% of firms and 80% of urban employment. There is considerable segmentation of employment practices in China with SMEs known for following informal employment arrangements which often fail to comply with even basic labour law while MNCs have long been regarded in China as offering superior employment practices. One source for improvement in local SME employment practices has been expected to be the transfer of employment practices along the supply chain from client MNCs to SME distributors. Drawing on case studies of three automotive supply chains in China this paper explores the extent and feasibility of these developments. With respect to current practices it finds that two of the three MNCs have developed strong partnership relations with their distributors which has led to a transfer and upgrading of employment practices in the SME distribution sector. The third MNC has not been able or willing to pursue this practice for a number of reasons, linked to both differences in the nature of the supply chain and market challenges but also to a more US-centric management approach which has not facilitated the development of trust along the supply chain. However, the longer term potential for these processes of employment upgrading through partnership are being put in question by changes in the distribution challenges, changes in the labour market in China and changes in the practices, capacities and strategies of the SME distributors themselves including their employment practices.

These results suggest three ways in which the current literature on employment practice transfer along supply chains need to be modified and developed. First relational partnerships may be difficult to develop or sustain in a context of dynamic evolving product, distribution and labour markets. Ways therefore need to be found to support the development of capacities along the supply chain that do not require high degrees of integration and dependence. Second there is no one best way of managing employment and the practices adopted by SMEs in these supply chains tend to prioritise retention which take on even greater importance in a context of rapid labour market change and opportunities. The employment system remains segmented in China with different pay systems, social protection arrangements and hiring practices, However there is both evidence of some convergence in the employment practices between the segments- with SMEs paying salaries competitive at the margin with MNCs and increasingly using formal practices that ensure social protection. Differences remain particularly with respect to working time and to promotion prospects but SMEs retain the traditional practices of providing for family security and prioritising loyalty. The scope for effective transfer to SMEs from MNCs may therefore be limited, for example to training. Third, although MNCs remain in dominant and powerful positions more attention needs to be paid to the strategies of the SMEs who are developing and responding to challenges that may reduce rather than increase their integration with their dominant clients as they seek to diversify risk and position themselves strategically in a changing market. Rather than viewing them as simply dependent suppliers, the distributors need to be considered as actors who use their knowledge of the rapidly changing Chinese product, consumer and labour markets to shape their own strategies and their responses to the policies of their MNC clients.

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